

VZCZCXRO3955  
RR RUEHHA RUEHMT RUEHQU  
DE RUEHOT #0828/01 3022020  
ZNR UUUUU ZZH  
R 292019Z OCT 09  
FM AMEMBASSY OTTAWA  
TO RUEHC/SECSTATE WASHDC 0019  
INFO RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RHEHNSC/WHITE HOUSE NATIONAL SECURITY COUNCIL WASHINGTON DC  
RUEHHA/AMCONSUL HALIFAX 0002  
RUEHMT/AMCONSUL MONTREAL 0001  
RUEHOT/AMEMBASSY OTTAWA  
RUEHQU/AMCONSUL QUEBEC 0001

UNCLAS SECTION 01 OF 02 OTTAWA 000828

SENSITIVE  
SIPDIS  
DEPARTMENT PLEASE PASS TO FERC

E.O. 12958: N/A  
TAGS: [ENRG](#) [EINV](#) [SENV](#) [PGOV](#) [CA](#)  
SUBJECT: HydroQu????bec to acquire most of the assets of NB Power

11. (U) This cable contains an action request, see para 11.

12. (SBU) SUMMARY: On October 29 the Quebec and New Brunswick (NB) provincial governments announced that HydroQu????bec intends to purchase the assets of New Brunswick Power (NB Power). The deal is attractive to HydroQu????bec because it will gain possession of major electricity transmission lines from NB to Maine and enhance its electricity export capacity to the United States. Canadian and American electricity grids are interlinked and Canada, in particular HydroQu????bec, supplies significant amounts of electricity to New England and New York. Premier Charest of Quebec took the unusual step of calling Ambassador Jacobson ahead of the public announcement to allay the notion, expressed by some, that the U.S. Federal Energy Regulatory Commission (FERC) should be concerned by the proposed acquisition. END SUMMARY.

13. (U) Premier Jean Charest of Qu????bec and Premier Shawn Graham of New Brunswick (NB) on October 29 signed a Memorandum of Understanding (MOU) whereby HydroQu????bec would acquire most of the assets of NB Power. This is the first time in Canada that a crown corporation from one province will become the owner of a crown corporation from another province. Under the terms of the MOU, HydroQu????bec would acquire most of the assets of NB Power for an amount equivalent to NB Power's debt, C\$4.75 billion. The nuclear generating facility at Point Lepreau (after the completion of the plant's refurbishment), the hydro facilities, and the transmission and distribution assets of NB Power are part of the proposed transaction. HydroQu????bec would not assume any liabilities with respect to the Point Lepreau refurbishment project. HydroQu????bec would offer employment to all employees of NB Power at the time of closing, and respect the collective bargaining agreements in place.

14. (U) According to Hydro-Quebec this transaction would be profitable for the crown corporation immediately upon implementation, with an expected annual return on equity of more than 10 per cent. The MOU sets a closing date for substantially all the assets involved on or about March 31, 2010 whereas the date for closing the deal on the Point Lepreau nuclear generating facility would follow on or about Jan. 1, 2011, after the completion of the refurbishment project now underway. A package of regulatory reforms, aimed at harmonizing New Brunswick's electricity regulatory system with that of Qu????bec, will be presented to the New Brunswick Legislature in the upcoming session.

15. (U) NB Power would continue as a separate New Brunswick entity, headquartered in Fredericton, and use the existing name and corporate identity; it would retain five fossil-fuel (coal, diesel or oil) powered plants and would supply electricity to HydroQu????bec under the terms of tolling agreements. New Brunswick's 350,000+ electricity customers would benefit from lower rates (comparable to those paid by Quebecers), and the province will enjoy a vastly reduced provincial debt exposure (NB Power's debt constituted 40 percent of the province's entire debt-load). Also, the proposed New Brunswick Energy Hub (a key political branding effort by Premier Graham) rates a mention in the MoU which notes that "HydroQu????bec will work with interested parties based in the Province of New Brunswick to build the energy infrastructure in the Province (the "Energy Hub") to serve local and North Eastern North America regional markets....".

16. (U) The MOU is available at:

<http://www.hydroquebec.com/media/en/index.htm> 1

17. (SBU) Newfoundland and Labrador Premier Danny Williams is opposed to the acquisition because he claims it would give HydroQu????bec a putative "stranglehold" on electricity transportation

OTTAWA 00000828 002 OF 002

corridors between Atlantic Canada and the lucrative U.S. market. Newfoundland and Quebec have been battling over electricity for decades. Recently, Newfoundland formally complained to various regulators that HydroQu????bec is not offering it fair tariffs to ship power through Quebec from the planned hydro-generating complex on the Lower Churchill River in Labrador. Newfoundlanders' anger and distrust toward Quebec is fueled by the 1969 deal involving shipping power through Quebec from the Upper Churchill complex at long-term fixed rates that are now well below market prices. In a letter to Premier Graham dated October 28, Williams wrote "Our province feels compelled to look into the potential of anti-competitive behaviour on the part of HydroQu????bec given the potential monopoly that could exist as the result of an agreement between them and NB Power". Williams has suggested also that the U.S. Federal Energy Regulatory Commission (FERC) should have concerns about the NB Power acquisition.

Premier Charest Calls Ambassador Jacobson

18. (SBU) Qu????bec Premier Jean Charest took the unusual step of calling Ambassador Jacobson ahead of the public announcement to brief him on the NB Power deal. Charest explained the terms of the deal, stating that it is a good deal for both parties with New Brunswick being relieved of a heavy debt burden and gaining reduced electricity rates while HydroQu????bec gains additional transmission capacity for sending electricity to the U.S. market. Charest noted to the Ambassador that HydroQu????bec will take over NB Power's nuclear generating plant only once the ongoing rehabilitation is complete and the plant is recertified - thus leaving any cost and regulatory risk with New Brunswick.

19. (SBU) Charest acknowledged that Newfoundland Premier Williams "is having a stroke" about this development. Charest told Ambassador Jacobson that Newfoundland had wanted to use New Brunswick's transmission assets "at preferential rates" to directly access the U.S. market and said Williams claims the U.S. would have regulatory concerns about subsidized electricity exports. Charest asserted twice, in direct contrast, that HydroQu????bec always "plays

by FERC rules." Charest also told the Ambassador that HydroQu????bec is planning to acquire the privately-owned Prince Edward Island power company. The generating assets involved are quite small, but Charest said HydroQu????bec would be also acquiring important wind assets and environmental credits.

¶10. (SBU) The Ambassador thanked Premier Charest for the call and noted that we are satisfied customers of Canadian energy; he also mentioned the positive American relationship with both HydroQu????bec and NB Power and told the premier that we expect to continue that positive relationship with the conglomerated company. The Ambassador told Premier Charest that he would be reporting these developments back to Washington.

¶11. (SBU) ACTION REQUEST: Post would appreciate receiving FERC's perspective on U.S. regulatory concerns, or lack thereof, with respect to the HQ acquisition of NB Power. END ACTION REQUEST.  
JACOBSON